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ONE HUNDRED TENTH CONGRESS

# Congress of the United States

## House of Representatives

COMMITTEE ON OVERSIGHT AND GOVERNMENT REFORM

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October 22, 2008

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Ms. Teresa McKay  
Director  
Defense Finance and Accounting Service  
Crystal Mall 3, Room 920  
Arlington, Virginia 22240

Dear Ms. McKay:

The Defense Finance and Accounting Service (DFAS) has been conducting an internal audit of the accuracy of computations made by Lockheed Martin ("Lockheed") for the VA Retro program, a benefit program Congress created in 2002 and 2004 for retired veterans with severe service-related and combat-related disabilities. It is my understanding that your internal review is detecting an excessively high degree of inaccuracy in both the "No Pay Due" determinations of ineligibility and payments in excess of \$2,500.

On the basis of your audit's preliminary findings, my staff calculates that large numbers of veterans fell victim to Lockheed's inaccurate computations: Between 1,782 and 1,985 severely disabled veterans were wrongly denied a VA Retro payment, while as many as 2,514 such veterans received inaccurate payments in excess of \$2,500. The total cost of these errors is between \$19.99 million to \$20.59 million.

Errors of that magnitude are disgraceful. Each and every one of those veterans devoted his career to the Armed Services of the United States and received his disabling injuries in combat or military service. Over the course of its cost-plus contract with the Government, Lockheed miscomputed and mishandled the VA Retro pay awards of the equivalent of a whole Combat Brigade.

As you know, your internal audit was a response to my subcommittee's investigation and hearing on DFAS mismanagement of and poor contractor performance in the VA Retro program. My subcommittee found, for instance, that 8,763 veterans died before receiving their retroactive payment. We also found that DFAS decided to suspend government procedures designed to verify the accuracy of payments in order to accelerate payments and clear the multi-year backlog

of VA Retro cases. Under the weakened quality assurance approach implemented on or about March 1, 2008, DFAS closed down the exacting audits performed by the Continuing Government Activity (CGA) -- essentially project managers and auditors working for the federal government. DFAS relied upon Lockheed's own quality assurance to check accuracy of payments. Lockheed applied a weaker standard to quality assurance than the government.<sup>1</sup> Lockheed's Quality Assurance relied exclusively on statistical sampling, making no distinction between payments over \$2,500 and payments below \$2,500.<sup>2</sup> That represented a lower standard of quality assurance than the government had performed. Indeed, your audit's finding of errors in payments exceeding \$2,500 reflects a breach of GAO regulations, which require 100% verification of payments over \$2,500 before payment is made. My subcommittee also discovered that 28,283 veterans were denied retroactive pay based on determinations made by Lockheed personnel wholly without internal quality assurance or government review.<sup>3</sup> According to Lockheed's operating procedures, Lockheed's quality assurance team did not verify the accuracy of any "No Pay Due" determination.<sup>4</sup> In testimony received at our hearing, DFAS and Lockheed confirmed that unchecked denials of eligibility were routinely made by individuals with as little as six weeks' training.

DFAS' internal review utilized random sampling of "No Pay Due" determinations and payments made in excess of \$2,500 to find an unacceptably high degree of error in both categories of computation. In light of these findings, I must insist that DFAS fulfill the promise made by your predecessor, Mr. Zack Gaddy, at our hearing on July 16, 2008 and in subsequent

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<sup>1</sup> In so doing, DFAS bypassed GAO regulations on statistical sampling in Federal quality control procedures. The Comptroller General of the United States has established rules for the application of statistical sampling in government quality assurance procedures. In the case of VA Retro payments, the following rule applied: for payments under \$2,500, statistical sampling sufficient to achieve a 95% confidence interval for a 97% accuracy rate. For payments over \$2,500, no sampling was allowed. For such payments, every single payment in a payroll must be manually checked. Any payment that is not confirmed is returned to the contractor for further processing. In 2003, DFAS approached GAO for relief from the sampling guidelines for other payments DFAS issued. GAO denied the request

<sup>2</sup> Staff briefing by Joseph Cipriano, President, Lockheed Martin Business Process Solutions (July 9, 2008).

<sup>3</sup> See "Die or Give Up Trying": How Poor Contractor Performance, Government Mismanagement and the Erosion of Quality Controls Denied Thousands of Disabled Veterans Timely and Accurate Retroactive Retired Pay Awards," Domestic Policy Subcommittee Majority Staff (online at <http://domesticpolicy.oversight.house.gov/story.asp?ID=2087>) (July 15, 2008) at footnote 43. Before the July 16, 2008 hearing, Mr. Gaddy put the number of "No Pay Due" determinations at 28,263. In testimony at the hearing, Mr. Gaddy asserted that 25,448 "no pay due" determinations were issued.

<sup>4</sup> Lockheed, *Standard Procedures, Team Blue VA Retro/CRSC Payroll Review, Team Blue Quality Assurance Payroll Review*, (Procedures No. 1111.08).

meetings, to conduct, as expeditiously as possible, a 100% recalculation of all No Pay Due determinations and payments in excess of \$2,500 made after suspension of government quality assurance.<sup>5</sup>

I look forward to hearing from you your commitment to keeping that promise to the subcommittee and America's veterans. The Oversight and Government Reform Committee is the principal oversight committee in the House of Representatives and has broad oversight jurisdiction as set forth in House Rule X.

Sincerely,

Dennis J. Kucinich  
Chairman  
Domestic Policy Subcommittee

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<sup>5</sup> See Domestic Policy Subcommittee, House Committee on Oversight and Government Reform, *Hearing* on "Examining Contractor Performance and Government Management of Retroactive Pay for Retired Veterans with Disabilities," (Jul. 16, 2008).

*Chairman Kucinich: Now I am going to request you, Mr. Gaddy, that DFAS's CGA do 100 percent verification of every no pay due determination that has been sent under VA Retro. Will you assure this Committee that you will do it?*

*Mr. Gaddy: Yes, I will.*

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